

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Clark County's discussion and analysis offers readers of the County's financial statements a narrative overview and analysis of the County's financial activities for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and in the financial statements and notes to the financial statements (which follow this discussion).

### **FINANCIAL HIGHLIGHTS**

Clark County's total assets exceeded its liabilities at December 31, 2004 by \$955 million. Net assets invested in capital assets (net of depreciation and related debt) account for 83% of this amount, with a value of \$797 million. Of the remaining net assets, \$49 million may be used to meet the County's ongoing obligations to citizens and creditors, without legal restriction.

- As of December 31, 2004, Clark County's governmental activities reported combined ending net assets (fund balance) of \$822 million, compared to \$843 million at the end of 2003 (a decrease of 2.5%). Details of factors contributing to this decrease are discussed later within this Management's Discussion and Analysis.
- Of the \$822 million, \$681 million was invested in capital assets, \$109 million was legally restricted for specific projects or programs, and \$32 million was available for spending at the County's discretion.
- As of December 31, 2004, Clark County's business-type activities reported combined ending net assets (fund balance) of nearly \$133 million, compared to \$106 million at the end of 2003. This 25% increase is attributed to two components: the addition of \$18.6 million in capital assets (primarily stormwater facilities and construction in progress at the sewer treatment plant ) and debt reduction of \$8.5 million (this includes a \$6.8 million defeasement of sewer bonds)
- Unreserved/undesignated fund balance for the General Fund was \$10.4 million at December 31, 2004, amounting to 10.8% of total General Fund expenditures for 2004.
- Unreserved/undesignated fund balance for the County Roads Fund was \$3.7 million at December 31, 2004, amounting to 6.8% of total roads fund expenditures for 2004.
- Clark County's total long term debt at December 31, 2004 was \$205.6 million, with a remaining capacity for non-voted debt of \$296 million.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to Clark County's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

#### **Government-wide Financial Statements**

There are two government-wide financial statements, which are designed to provide readers with a broad overview of Clark County's finances in a manner similar to a private-sector business. Both of the government-wide financial statements distinguish functions of Clark County that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion

of their costs through user fees and charges (referred to as "business-type activities"). The governmental activities of Clark County include a full range of local government services provided to the public, such as law enforcement and public safety; the superior, juvenile, and district court systems; legal prosecution and indigent defense; jails and corrections; road construction and maintenance; community planning and development; parks and open space preservation; public health; and care and welfare of the disadvantaged and mentally ill. In addition, other general government services are provided, such as elections, property assessment, tax collection, and the issuance of permits and licenses. The business-type activities of Clark County include solid waste, sanitary sewer, and clean water management.

The statement of net assets presents information on all of Clark County's assets and liabilities, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. However, this is just one indicator of financial health of the County. Other indicators include the condition of the County's infrastructure subsystems (roads, stormwater, bridges, etc.), changes in property tax base, and general economic conditions within the County.

The statement of activities presents information showing how the County's net assets changed during 2004. Because it separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net assets are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received in 2004, and earned but unused vacation and sick leave will be included in the statement of activities as revenue and expense, even though the cash associated with these items will not be received or distributed in 2004.

The County has no separately identified component units included in the government-wide financial statements. By virtue of the County's authority to exercise influence over its operations, the Industrial Revenue Bond Corporation is reflected as a blended component unit special revenue fund and its financial data is included in governmental activities. You will find further information regarding this blended component unit in the *Summary of Significant Accounting Policies*, on the first page of the notes to the financial statements. The County has also reported its investment in one governmental joint venture: Clark Regional Emergency Services Agency (CRESA). A description of this joint venture is found in note V.D. of the notes to the financial statements.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Clark County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Clark County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Governmental Funds are used to account for most of a government's tax-supported activities. Proprietary Funds are used to account for a government's business type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary Funds are used to account for resources that are held by a government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

## **Governmental Funds**

The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances present separate columns of financial data for the General Fund, County Roads Fund, Mental Health Fund, Community Services Grant Fund and Campus Health District Facility Fund, which are considered to be major funds, based on criteria established by GASB Statement #34. (GASB #34 defines a major fund as a fund where the assets, liabilities, revenues or expenditures comprise 1) at least 10% of the total dollar amount of the same category within either all government or all enterprise funds, as appropriate, and 2) at least 5% of the total dollar amount of all governmental and enterprise funds combined for the same category. The General Fund is always considered a major fund.) The Community Services Grant Fund and the Campus Health District Facility Fund qualified as major funds for the first time in 2004. The County has elected to include the Mental Health Fund as a major fund, even though it does not currently meet the criteria, as it is expected to meet the minimum criteria for mandatory reporting as a major fund in future years. Data from the remaining governmental funds are combined into a single, aggregated presentation. The governmental fund financial statements can be found immediately following the government-wide financial statements. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements, outside of the basic financial statements (following the notes to the financial statements).

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements' use of accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This allows readers to better understand the long-term impact of the government's financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the governmental activities column in the government-wide statements, in order to facilitate this comparison.

The County maintains budgetary controls over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the biennial appropriated budget. Budgets for governmental funds are established in accordance with state law, and are adopted on a fund level, except for the General Fund, which is adopted on a department level. Personal services are budgeted by positions. Capital outlays are approved on both an item by item basis and a project basis. A budgetary comparison of revenues, expenditures, and changes in fund balances is provided for the General Fund and all special revenue and capital funds, to demonstrate compliance with the budget. Major fund budgetary variance statements are included with the basic financial statements. All nonmajor fund budget variance schedules follow the combining fund statements. Budgetary variances for the General Fund are discussed in some detail later in this section.

## **Proprietary Funds**

There are two types of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its solid waste, clean water, and sewer operations. Internal Service Funds (the second type of proprietary funds) accumulate and

allocate costs internally among the County's various functions. The County uses internal service funds to account for its vehicle fleet, election services, insurance reserves, radio and computer equipment replacement reserves, and various other administrative services. The revenues and expenses of the internal service funds that are duplicated in other funds through allocations are eliminated in the government-wide statements, with the remaining balances included in the governmental activities column.

Proprietary fund statements follow governmental fund statements in this report. They provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the Proprietary Fund Statement of Net Assets to the business-type column on the Government-Wide Statement of Net Assets, the total net assets agree, and therefore need no reconciliation. In comparing the total assets and total liabilities between the two statements, you will notice slightly different amounts because the "internal balances" line on the government-wide statement combines the "due from other funds" (asset) and the "due to other funds" (liabilities) from the fund statement in a single line in the asset section of the statement.

The basic proprietary fund financial statements provide separate information on each enterprise fund, as there is only one nonmajor enterprise fund. All internal service funds are aggregated into a single presentation in the basic proprietary fund financial statements. Since there is only one nonmajor enterprise fund, there are no combining statements for nonmajor enterprise funds in this document.

### **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support Clark County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Clark County has three types of fiduciary funds: 1) Investment Trust funds (which report the portion of County investments that belong to other jurisdictions), 2) Private Purpose Trust funds (which report trust arrangements where the principal and interest benefit those outside of the County), and 3) Agency Funds (which are clearing accounts for assets held by Clark County in its role as custodian until the funds are allocated to the private parties, organizations, or government agencies to which they belong). The basic fiduciary fund financial statements can be found following the proprietary fund financial statements.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Statement of Net Assets**

Clark County's total assets stand at \$1.2 billion as of December 31, 2004, an increase of \$48 million dollars from the previous year, while total liabilities stand at \$270 million, an increase of \$42 million from December 31, 2003. The table on the following page reflects Clark County's Statement of Net Assets for the year ending December 31, 2004.

*Clark County Net Assets*

	Governmental Activities		Business-type Activities		Total		% Change
	2004	2003	2004	2003	2004	2003	
Current & other assets	\$ 189,996,109	\$ 218,347,713	\$ 50,308,846	\$ 58,739,189	\$ 240,304,955	\$ 277,086,902	(13.3%)
Capital assets (net of depreciation)	838,524,307	772,168,127	145,949,853	127,357,921	984,474,160	899,526,048	9.4%
Total assets	1,028,520,416	990,515,840	196,258,699	186,097,110	1,224,779,115	1,176,612,950	4.1%
Long term liabilities	175,127,421	119,505,404	30,432,182	38,948,698	205,559,603	158,454,102	29.7%
Other liabilities	31,025,115	28,074,329	32,939,690	41,317,022	63,964,805	69,391,351	(7.8%)
Total liabilities	206,152,536	147,579,733	63,371,872	80,265,720	269,524,408	227,845,453	18.3%
Net assets:							
Invested in capital assets, net of related debt	681,478,807	673,413,118	115,686,833	88,409,223	797,165,640	761,822,341	4.6%
Restricted	108,815,140	65,029,784	0	0	108,815,140	65,029,784	67.3%
Unrestricted	32,073,933	104,493,205	17,199,994	17,422,167	49,273,927	121,915,372	(59.6%)
Total net assets	\$ 822,367,880	\$ 842,936,107	\$ 132,886,827	\$ 105,831,390	\$ 955,254,707	\$ 948,767,497	0.7%

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Clark County's net assets total slightly over \$955 million at December 31, 2004, as compared to \$949 million in 2003, an increase of less than one percent.

The County's capital assets increased by \$85 million in 2004. While the County spent \$73 million on capital assets (primarily road construction, construction of a new exposition center, capital costs for a new community health center, and other construction projects), outside entities (primarily developers) contributed \$28 million in capital assets to the County. Road system infrastructure and stormwater/drainage system infrastructure account for most of the contributions. In 2004, decreases in the value of capital assets (depreciation and disposal of assets) amounted to \$16 million.

Total current and other assets amount to \$240 million, with \$174 million consisting of cash and cash equivalents. Cash and cash equivalents within governmental funds increased by \$46.4 million in 2004, while business-type funds realized a slight increase of one-half million dollars. The increase within governmental funds is partly due to unspent bond proceeds (to provide funding for several capital projects) which were received in late October, 2004. The remaining \$66 million in current and other assets is made up of \$61 million in accounts and notes receivable (down from \$146 million in 2003) and \$5 million in miscellaneous assets.

Compared to 2003 (\$277 million), total current and other assets decreased \$37 million in 2004. Accounts and notes receivable decreased by \$85 million. \$72 million is due to a prior period adjustment in governmental funds for property taxes receivable (which is discussed at length in the prior period adjustment section of the Notes to the Financial Statements: section V.J.), nine million dollars is due to a decrease in notes receivable within the Sanitary Sewer Fund (as a result of payments received on an interlocal contract receivable), and four million is a decrease in miscellaneous governmental accounts receivable.

At December 31, 2004, the County's outstanding liabilities were \$270 million (up \$42 million from 2003), with \$206 million in long term liabilities (up \$47 million from 2003). Governmental long term liabilities increased overall by \$56 million in 2004 (primarily due to the issuance of \$59 million in general obligation bonds, including premiums), while business-type long term liabilities decreased by nine million dollars (as a result of the defeasement of \$6.8 million in revenue bonds, in addition to making scheduled debt payments). Long term liabilities due within a year are ten million dollars, with the remainder due over an extended period of time. Refer to the

notes to the financial statements (note IV.H.) for a more in depth discussion of long term debt. At December 31, 2004, other liabilities included \$33 million in deferred revenue (down from \$42 million in 2003, this change is related to the defeasement of bonds which was mentioned previously in this paragraph) and \$25 million in accounts payable and accrued liabilities, combined (up from \$21 million in 2003). Deposits payable to customers decreased from six million dollars at December 31, 2003, to five million dollars at the end of 2004. These deposits are predominately retainage held through the completion of capital construction projects, and as such, vary based on the timelines of the multiple projects.

Of the County's total net assets, 83% are invested in capital assets, less outstanding debt used to acquire those assets. Capital assets provide services to citizens, and therefore investment in capital assets is not available for future spending. Although investment in capital assets is reported net of related debt, resources needed to repay this debt must be provided by other sources, since capital assets themselves cannot be used to liquidate the liabilities. In addition (to the capital assets, net of debt), 11% of the County's total net assets are subject to external restrictions on how they may be used (restricted by the Revised Code of the State of Washington or by contractual agreements with outside parties). The remaining balance of \$49 million (5% of total net assets), represents the amount that may be used to meet the County's ongoing obligations. The decrease in unrestricted net assets from December 31, 2003, of \$72 million, is in direct correlation to the prior period adjustment mentioned earlier in this section, as property taxes receivable are generally unrestricted assets.

At December 31, 2004, Clark County reports positive balances in all categories of net assets for the County as a whole, as well as for governmental activities. Business-type activities report positive balances in both capital and unrestricted assets, with no restricted assets.

### Statement of Changes in Net Assets

The County's total net assets increased by nearly \$6.5 million in 2004. Total County revenues, at \$287.5 million in 2004, decreased by \$9.2 million from 2003. Governmental activities provided \$271.2 million in revenues (94%), while business-type activities provided \$16.3 million. The ratio changed only slightly from 2003, when governmental activities accounted for 95% of the total.

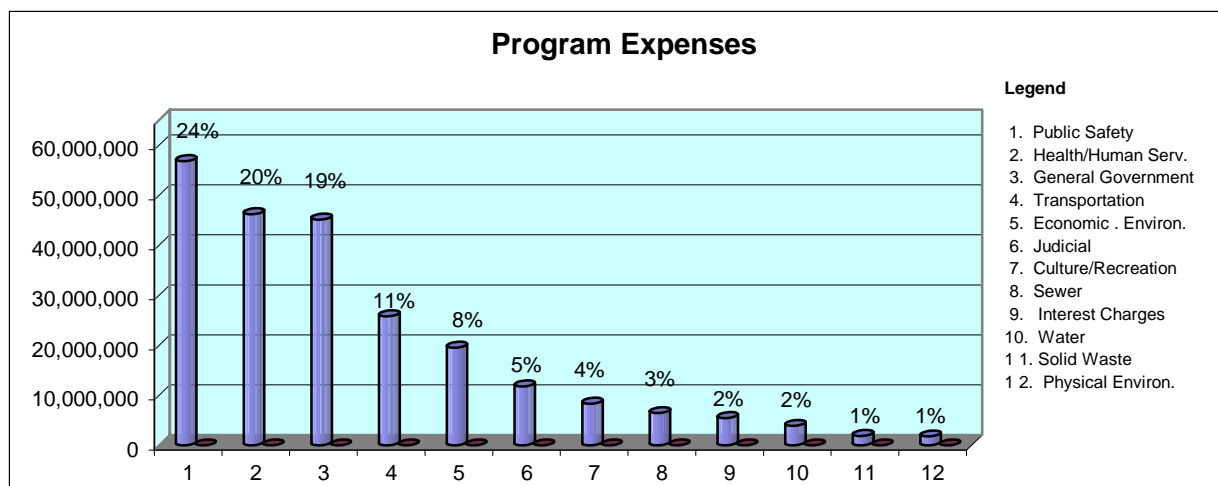
Governmental activities grants and contributions decreased by \$14.9 million in 2004 from 2003, while grants and contributions for business-type activities increased by \$2.2 million during the same period. Construction activity and population in Clark County continued to experience a healthy growth rate in 2004, resulting in a \$2.7 million increase in property and sales tax revenues, combined. Interest earnings increased by \$2.6 million from 2003 to 2004, while charges for services decreased by \$1.8 million (a 2.3% decrease). Key elements in changes in net assets are shown in the following table.

<i>Clark County Changes in Net Assets</i>						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
<b>Program Revenues</b>						
Charges for services	\$ 61,266,074	\$ 62,533,614	\$ 12,532,396	\$ 13,019,167	\$ 73,798,470	\$ 75,552,781
Operating Grants and contributions	59,718,604	55,019,386	758,148	498,550	60,476,752	55,517,936
Capital Grants and contributions	29,833,084	49,424,465	2,720,344	766,039	32,553,428	50,190,504
<i>General revenues:</i>						
Taxes	113,681,720	110,987,684	0	0	113,681,720	110,987,684
Gain/(loss) on sale of assets	1,830,875	1,914,143	0	0	1,830,875	1,914,143
Interest earnings on investments	4,915,773	2,331,585	270,564	282,528	5,186,337	2,614,113
Total revenues	\$ 271,246,130	\$ 282,210,877	\$ 16,281,452	\$ 14,566,284	\$ 287,527,582	\$ 296,777,161

### Clark County Changes in Net Assets - continued

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
<b>Program Expenses:</b>						
General government	\$ 45,147,967	\$ 39,113,494	\$ 0	\$ 0	\$ 45,147,967	\$ 39,113,494
Public safety	56,822,756	54,458,286	0	0	56,822,756	54,458,286
Judicial	11,792,152	12,078,992	0	0	11,792,152	12,078,992
Physical environment	1,795,890	1,280,433	0	0	1,795,890	1,280,433
Transportation	25,823,196	30,214,673	0	0	25,823,196	30,214,673
Economic environment	19,529,418	16,203,413	0	0	19,529,418	16,203,413
Health and human services	46,237,042	44,120,562	0	0	46,237,042	44,120,562
Culture & recreation	8,347,815	10,701,052	0	0	8,347,815	10,701,052
Solid Waste	0	0	1,901,751	2,186,114	1,901,751	2,186,114
Water	0	0	3,915,099	2,884,329	3,915,099	2,884,329
Sewer	0	0	6,479,177	5,766,332	6,479,177	5,766,332
Interest on long term debt	5,467,111	6,836,542	0	0	5,467,111	6,836,542
<b>Total expenses</b>	<b>220,963,347</b>	<b>215,007,447</b>	<b>12,296,027</b>	<b>10,836,775</b>	<b>233,259,374</b>	<b>225,844,222</b>
Special Item - Payment from outside entity towards County debt defeasement			7,341,480			
Excess (deficiency) of revenues over (under) expenses	50,282,783	67,203,430	11,326,905	3,729,509	61,609,688	70,932,939
Transfers	141,980	840,240	(141,980)	(840,240)	0	0
<b>Change in Net Assets</b>	<b>50,424,763</b>	<b>68,043,670</b>	<b>11,184,925</b>	<b>2,889,269</b>	<b>61,609,688</b>	<b>70,932,939</b>
Net assets as of January 1	842,936,107	780,675,825	105,831,390	102,942,121	948,767,497	883,617,946
Prior period adjustments	(70,992,990)	(5,783,388)	15,870,512	0	(55,122,478)	(5,783,388)
<b>Net Assets as of December 31</b>	<b>\$ 822,367,880</b>	<b>\$ 842,936,107</b>	<b>\$ 132,886,827</b>	<b>\$ 105,831,390</b>	<b>\$ 955,254,707</b>	<b>\$ 948,767,497</b>

County expenses for the year were \$233 million, up from \$226 million in 2003. Following is a graph which illustrates by program where funds were spent in 2004.



Governmental activities accounted for \$221 million (95%) of total County expenses. Public safety, health and human services, and general government programs, combined, accounted for 67% of total governmental expenses (63% of total County expenses). Public safety and health and human services expenses each increased by slightly over two million dollars from

2003 (4.3% and 4.7% increases, respectively). General government expenses increased by six million dollars in 2004. \$2.5 million is an increase in annual depreciation expense (due primarily to new downtown campus buildings being depreciated for the first time in 2004). The remaining three million dollar increase is within internal service fund expenses. These increases occurred in the Elections Fund (where a new voter registration system was implemented, new voter registrations tripled previous years, and there were several recounts in the Governor's race) and in the General Liability Insurance Fund (where the Washington Counties Risk Pool suggested that the County recognize a \$1.3 million increase in their liability reserve).

Transportation and economic environment expenses, combined, account for 21% of total governmental activities expenses, with all other programs and interest expense accounting for the remaining 12%. Transportation expenses decreased four million dollars in 2004, from 2003. Both capital and non-capital road projects are tied closely to grant revenue (which decreased by three million dollars in 2004) and Public Works Trust Fund Loan proceeds (which decreased by two million dollars in 2004).

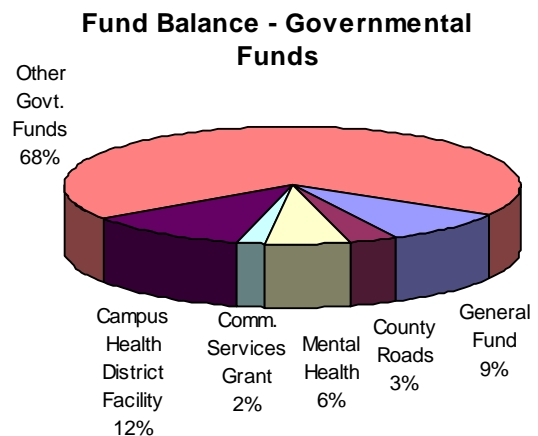
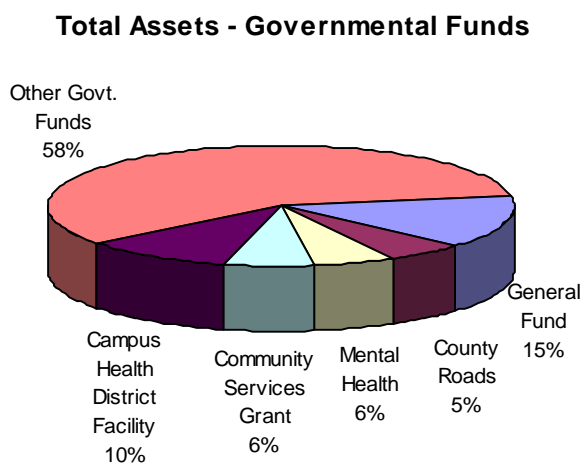
In business-type activities, which account for five percent of all County expenses, sewer and water expenses increased slightly, while solid waste expenses experienced a slight decrease in 2004 from 2003.

## FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, Clark County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Following are financial analysis of the County's governmental and proprietary funds.

### Governmental Funds Balance Sheet Analysis

The General Fund, County Roads Fund, Mental Health Fund, Community Services Grant Fund, and Campus Health District Facility Fund were the only major governmental funds in 2004. The Community Services Grant Fund and Campus Health District Facility Fund qualified as major funds for the first time in 2004. Combined, these five major funds account for 42% of total governmental fund assets and 32% of total governmental fund balance.





Total assets in the General Fund amounted to \$26 million, accounting for 15% of total governmental fund assets, compared to \$74 million and 34% in 2003. Of the \$48 million decrease, \$44 million is due to the prior period adjustment for property taxes receivable that was discussed previously in the government-wide statement of net assets section of this Management's Discussion and Analysis. Cash and deposits in the General Fund decreased by nearly \$3 million, due to one-time interfund transfers made in order to eliminate debt in other County funds. Advances due from other funds decreased one million dollars during 2004.

The Campus Health District Facility capital fund accounted for 10% of total governmental fund assets, with \$19 million (all in cash and cash equivalents) at December 31, 2004. This \$19 million balance is accounted for by unspent bond proceeds which will be spent down as the capital project proceeds.

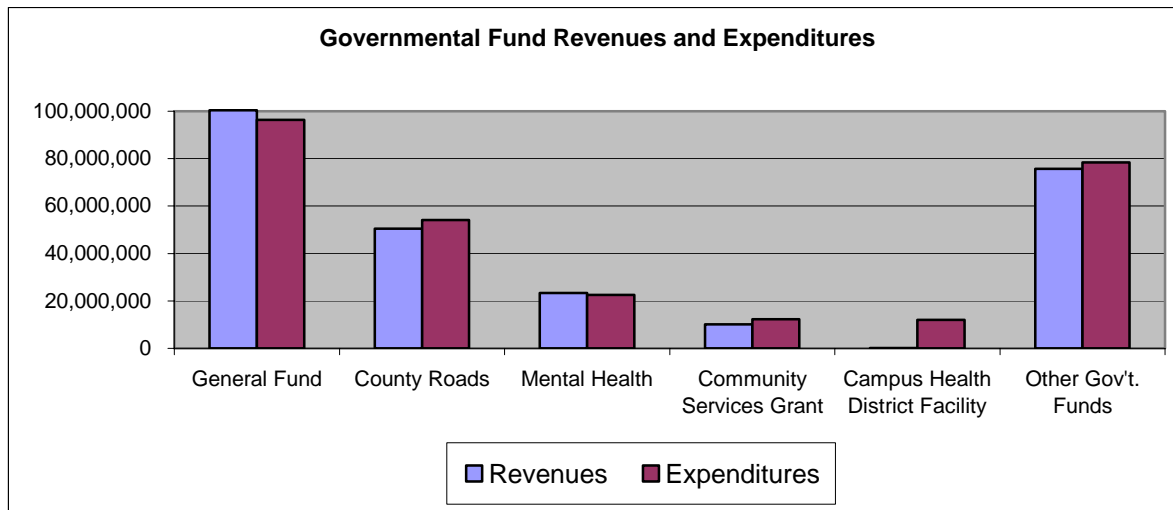
As of December 31, 2004, the County's governmental funds reported combined ending fund balances of \$131 million (compared to \$83 million in 2003). Of this \$48 million increase, capital funds account for \$39 million. This increase comes from unspent bond proceeds from the \$59 million bonds (including premiums) issued in October of 2004 (as was previously mentioned in the discussion on the government-wide statement of net assets). Unlike government-wide statements, the fund statements do not record long term debt, but expense debt as it is paid. The result is that unspent debt proceeds are reflected in the fund balance. An additional eight million dollar increase in total fund balance is due to prior period adjustments. In 2004, Clark County adopted a policy to remove any compensated absence liabilities from governmental funds, in order to be consistent with GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Statements". The results of this policy change added \$7.7 million to the restated fund balance for governmental funds as of January 1, 2004. A more complete explanation of the policy change can be found under Prior Period Adjustments in the notes to the financial statements (section V.J.). The prior period adjustment of \$72 million referred to in the government-wide analysis section of this discussion and analysis is not part of the fund statements, as the current year property tax assessment for the following year's tax payment (which was previously reported as taxes receivable) is offset by an exact amount of deferred revenue in the fund statements.

The focus of Clark County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unreserved/undesignated fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year. Of the ending fund balance, \$121 million (92%) is unreserved and undesignated, and therefore available for spending within the funds. \$1.7 million is reserved for advances due from other funds. In addition, six million dollars is designated for low income housing programs and \$2.2 million is designated for future payment of compensated absences (vacation leave and sick leave earned, but unpaid).

The General Fund is the chief operating fund of Clark County. Unreserved/undesignated fund balance in the General Fund changed very little in 2004 from 2003 (from \$10.9 million in 2003 to \$10.4 million in 2004). There was an overall increase of \$1.1 million in fund balance in the General Fund during 2004.

#### **Governmental Funds Revenue/Expenditure Analysis**

The following chart shows the revenue and expenditure amounts for the year ended December 31, 2004 for the five major governmental funds and for all other governmental funds.



Revenue indicators in the chart, do not include one time financing sources, such as proceeds from new debt, sale of assets, or interfund transfers. Total revenues for governmental funds increased by \$16 million in 2004. During the same period, total expenditures increased by \$17 million. The General Fund and the County Roads Fund together account for 58% of all governmental fund revenue (down from 60% in 2003) and 55% of the expenditures (down from 59% in 2003).

General Fund revenues increased by nearly two million dollars, while expenditures increased by three million dollars. County Road fund revenues increased by \$1.6 million, while expenditures (which consist mainly of capital road projects) decreased by \$6.2 million. The Mental Health Fund increased revenues by \$4.6 million in 2004 and increased expenditures by \$3.4 million. Intergovernmental revenues account for nearly all mental health revenues (95% in 2004), and revenues and expenditures fluctuate according to awards. Revenues in the Community Services Grant Fund increased by \$1.3 million in 2004 and expenditures increased by \$3.6 million (the fund received \$1.8 million in bond proceeds in 2004). The Campus Health District Facility capital fund spent \$12 million towards the design and construction project in 2004. This fund's only revenue in 2004 was \$145,816. However, the fund received bond proceeds (including premiums) of \$23.9 million in 2004. Nonmajor special revenue funds showed a one million dollar increase in revenue and a \$634,581 dollar increase in expenditures in 2004, from 2003, while capital project funds increased revenues by \$5.3 million and expenditures by only \$195,831. The 2003 nonmajor fund amounts have been adjusted for the two funds which qualified as major funds for the first time in 2004, for the purpose of this comparison, so that the data would be comparable.

Governmental funds had an overall increase in fund balance of \$47 million in 2004 (the change in fund balance was discussed in the section immediately preceding this section). The General Fund's net change in fund balance in 2004 was an increase of 10%, or \$1.1 million (the increase in the General Fund's fund balance was discussed in the previous section). The net change in fund balance for the County Roads Fund was an increase of \$1.3 million, or 42% (due to debt proceeds, interfund transfers, and sale of assets). The Mental Health Fund's net change in fund balance was one million dollars (13%) due to revenues outpacing expenditures during the year. The Campus Health District Facility Fund increased fund balance by \$12.5 million (from \$3.1 million in 2003 to \$15.6 million in 2004), due to unspent bond proceeds, while the Community Services Grant Fund increased fund balance by approximately \$700,000 in 2004. Nonmajor special revenue funds had an increase of \$4.7 million in total during 2004.

In October, 2004, bond proceeds of \$59 million (including bond premiums) were received for the purpose of funding several county projects and the proceeds were distributed among several funds. The result was that capital project funds more than doubled their fund balance for 2004 (from \$34.5 million at December 31, 2003 to \$73.3 million at the end of 2004, which includes the Campus Health District Facility major fund). Projects funded by these proceeds include a community health center, an exposition center at the county fairgrounds, and new software systems. Capital projects are discussed further in the Capital Asset and Debt Administration section of this discussion and analysis.

### Enterprise Funds Net Assets Analysis

Clark County has three enterprise funds, two of which (Sanitary Sewer and Clean Water) are considered major funds. The Sanitary Sewer Fund accounts for 54% of total assets and 33% of net assets for all enterprise funds at December 31, 2004. The activities of this fund involve maintenance and operation of the Salmon Creek Wastewater Treatment Plant. The Clean Water Fund, whose capital assets consist mainly of storm water facilities and drainage infrastructure, accounts for 43% of total assets and 62% of net assets at December 31, 2004. The table that follows reflects the Enterprise Funds Statement of Net Assets for the year ending December 31, 2004.

<i>Clark County Washington</i>								
Enterprise Funds - Statement of Net Assets								
	Major				Non-Major		Total	
	Sanitary Sewer		Clean Water		Solid Waste			
	2004	2003	2004	2003	2004	2003	2004	2003
<b>Assets</b>								
Current assets								
Cash / cash equivalents	\$ 4,184,950	\$ 5,152,536	\$ 8,515,048	\$ 7,203,311	\$ 5,213,973	\$ 5,005,699	\$ 17,913,971	\$ 17,361,546
Other current assets	225,663	298,452	740,647	658,908	584,327	470,611	1,550,637	1,427,971
Total current assets	4,410,613	5,450,988	9,255,695	7,862,219	5,798,300	5,476,310	19,464,608	18,789,517
Noncurrent assets								
Contracts receivable	30,851,724	39,763,609	0	201,835	0	0	30,851,724	39,965,444
Capital assets	80,677,521	78,669,687	79,231,801	61,162,121	1,168,826	1,168,826	161,078,148	141,000,634
Less accum. depreciation	(9,943,595)	(8,555,541)	(4,751,937)	(4,684,287)	(432,763)	(402,885)	(15,128,295)	(13,642,713)
Total noncurrent assets	101,585,650	109,877,755	74,479,864	56,679,669	736,063	765,941	176,801,577	167,323,365
Total assets	105,996,263	115,328,743	83,735,559	64,541,888	6,534,363	6,242,251	196,266,185	186,112,882
<b>Liabilities</b>								
Current liabilities								
Accts. payable & accrued liabilities	682,438	823,961	1,243,522	569,666	169,497	175,558	2,095,457	1,569,185
Curr. portion of long term debt	1,865,288	2,697,197	5,556	0	3,218	0	1,874,062	2,697,197
Total current liabilities	2,547,726	3,521,158	1,249,078	569,666	172,715	175,558	3,969,519	4,266,382
Noncurrent liabilities								
Deferred revenue - HDSD	30,851,724	39,763,609	0	0	0	0	30,851,724	39,763,609
Compensated absences	73,271	71,710	50,011	64,424	28,959	28,616	152,241	164,750
Advances	1,589,839	1,872,045	0	0	0	0	1,589,839	1,872,045
Long Term Debt Payable	26,816,035	34,214,706	0	0	0	0	26,816,035	34,214,706
Total noncurrent liabilities	59,330,869	75,922,070	50,011	64,424	28,959	28,616	59,409,839	76,015,110
Total liabilities	61,878,595	79,443,228	1,299,089	634,090	201,674	204,174	63,379,358	80,281,492
<b>Net Assets</b>								
Invested in capital assets, net of related debt	40,470,906	31,330,198	74,479,864	56,477,834	736,063	765,941	115,686,833	88,573,973
Unrestricted	3,646,762	4,555,317	7,956,606	7,429,964	5,596,626	5,272,136	17,199,994	17,257,417
Total net assets	\$ 44,117,668	\$ 35,885,515	\$ 82,436,470	\$ 63,907,798	\$ 6,332,689	\$ 6,038,077	\$ 132,886,827	\$ 105,831,390

Although the Sanitary Sewer Fund has \$22 million more in total assets than the Clean Water Fund, the Clean Water Fund has only \$1.3 million in liabilities (as compared to nearly \$62 million in liabilities in the sewer fund), which accounts for the Clean Water Fund having the larger share of enterprise fund net assets. While the treatment plant was paid for with revenue

bonds and public works trust fund loans, most of the stormwater and drainage facilities have been contributed by developers, and those facilities paid for by the County have been funded by clean water fees that were collected prior to the building of the facilities.

At December 31, 2004, enterprise funds reported combined net assets of \$133 million, an increase of \$27 million from 2003. Of the \$133 million, \$116 million (87%) is accounted for by investment in capital assets, net of related debt. The remaining \$17 million (no change from 2003) is unrestricted and available for spending in accordance with the needs of the funds.

The Clean Water Fund recorded an increase of \$18.5 million in net assets in 2004, with increased total assets of \$19.2 million (an \$18 million increase in capital assets, net of depreciation), and increased liabilities of \$664,999. Total assets of the Sanitary Sewer Fund decreased by nine million dollars during the year, while its liabilities decreased by \$17.6 million, leaving a net increase of slightly over eight million dollars in net assets. There was a \$6.8 million defeasement of revenue bonds, funded by early payment on contracts receivable (an asset that is offset in this statement by deferred revenue). This action reduced both deferred revenue and long term debt within the liabilities section (beyond the reductions in these items that occurred through scheduled debt payment). The Solid Waste Fund had no substantial changes in their statement of net assets from 2003.

### Enterprise Funds Revenue and Expense Analysis

The following table reflects the Enterprise Funds revenues and expenses for the year ending December 31, 2004.

Clark County Washington								
Enterprise Funds - Revenues and Expenses								
	Major				Non-Major		Total	
	Sanitary Sewer		Clean Water		Solid Waste			
	2004	2003	2004	2003	2004	2003	2004	2003
REVENUES								
Charges for services	\$ 6,143,477	\$ 6,716,040	\$ 4,856,001	\$ 4,573,084	\$ 1,529,465	\$ 1,699,132	\$ 12,528,943	\$ 12,988,256
Interest and investment revenue	72,824	82,843	122,184	121,196	75,556	78,489	270,564	282,528
Operating grant revenue	0	0	154,871	126,499	603,277	372,051	758,148	498,550
Miscellaneous revenue	0	3,764	163	26,688	3,290	459	3,453	30,911
Total revenues	6,216,301	6,802,647	5,133,219	4,847,467	2,211,588	2,150,131	13,561,108	13,800,245
EXPENSES								
Personal services	891,127	881,266	796,219	789,723	620,600	609,489	2,307,946	2,280,478
Contractual services	798,464	658,987	291,859	343,968	806,240	1,047,075	1,896,563	2,050,030
Other supplies/expenses	573,928	568,865	2,759,108	1,676,935	445,032	500,811	3,778,068	2,746,611
Depreciation	1,356,858	1,077,659	67,913	73,703	29,879	20,664	1,454,650	1,172,026
Interest expense	2,858,800	2,579,555	0	0	0	8,075	2,858,800	2,587,630
Total expenses	6,479,177	5,766,332	3,915,099	2,884,329	1,901,751	2,186,114	12,296,027	10,836,775
Income (loss) before transfers	(262,876)	1,036,315	1,218,120	1,963,138	309,837	(35,983)	1,265,081	2,963,470
Capital contributions, interfund transfers, and special items	8,495,029	0	1,440,040	679,914	(15,225)	(754,115)	9,919,844	(74,201)
Change in net assets	8,232,153	1,036,315	2,658,160	2,643,052	294,612	(790,098)	11,184,925	2,889,269
Net assets - Jan 1	35,885,515	34,849,200	63,907,798	61,264,746	6,038,077	6,828,175	105,831,390	102,942,121
Prior period adjustment	0	0	15,870,512	0	0	0	15,870,512	0
Net assets - Jan 1 - restated	35,885,515	34,849,200	79,778,310	61,264,746	6,038,077	6,828,175	121,701,902	102,942,121
Net assets - Dec 31	\$ 44,117,668	\$35,885,515	\$82,436,470	\$63,907,798	\$6,332,689	\$6,038,077	\$132,886,827	\$105,831,390

Of the total revenues for enterprise funds in 2004, the Sanitary Sewer Fund contributed 46%, the Clean Water Fund contributed 38%, and the Solid Waste Fund contributed 16%. Sanitary Sewer Fund revenues decreased in 2004 by \$586,000, while the other two funds showed slight increases from 2003. For enterprise funds, in total, charges for services accounted for 92% of

total revenues, and at \$12.5 million were down slightly from \$13 million in 2003. Interest and investment revenue decreased slightly, while operating grant and miscellaneous revenue (combined) increased by \$232,140. At \$12.3 million in 2004, there was \$1.5 million increase in expenses from 2003. Increases in clean water supplies and other expenses accounted for \$1.1 million, while depreciation and interest expenses, for all three funds combined, increased by approximately \$550,000. Total expenses for the year ran 91% of total revenues.

In 2004, there were capital contributions by developers of stormwater facilities in the amount of \$1.6 million, intergovernmental capital contributions of \$1.2 million for upgrades at the treatment plant, and a \$7.3 million early payment (recorded as a special item on the statements) on contracts receivable by the City of Battle Ground (this allowed the \$6.8 million defeasement of revenue bonds referred to earlier in this management's discussion and analysis). There was also a prior period adjustment in the Clean Water Fund of \$15.9 million. This adjustment is for capital contributions of stormwater facilities from developers that were contributed in prior years, but were recorded as assets in 2004. The result for 2004 was a positive change in net assets of \$27 million for the enterprise funds. Each of the three enterprise funds realized a positive change in net assets for the year.

## GENERAL FUND BUDGETARY HIGHLIGHTS

### General Fund Changes in Budget

The County adopts a biennial budget which is amended during the budget years by supplemental appropriation resolutions. General Fund budgeted revenues increased by 4.3% from the original budget, while budgeted expenditures increased by 4.9%. Interfund transfers increased by nearly 500% from the original budget amount.

The following table shows the changes between the original and the final biennial General Fund budget as of December 31, 2004.

<i>Clark County Washington</i> General Fund Budgeted Revenues and Expenditures For the Biennium Ended December 31, 2004			
	Original 2003/2004 <u>Budget</u>	Final 2003/2004 <u>Budget</u>	Change Positive / (Negative)
<b><u>Revenues:</u></b>			
Taxes	\$ 127,567,468	\$ 132,133,030	\$ 4,565,562
Intergovernmental	18,621,858	21,958,174	3,336,316
Other revenues	42,937,171	43,208,819	271,648
Total revenues	<u>189,126,497</u>	<u>197,300,023</u>	<u>8,173,526</u>
<b><u>Expenditures</u></b>			
General government	56,105,822	60,354,446	(4,248,624)
Public safety	98,768,460	101,328,823	(2,560,363)
Judicial	21,032,104	22,740,079	(1,707,975)
All other expenditures	11,885,071	12,566,656	(681,585)
Total expenditures	<u>187,791,457</u>	<u>196,990,004</u>	<u>(9,198,547)</u>
Excess (deficiency) of revenues over expenditures	1,335,040	310,019	(1,025,021)
Other financing sources	919,414	1,499,414	580,000
Interfund transfers	<u>(2,489,964)</u>	<u>(12,306,207)</u>	<u>(9,816,243)</u>
Net change in fund balance	\$ (235,510)	\$ (10,496,774)	\$ (10,261,264)

The largest change in the General Fund revenue budget was in taxes, with local retail sales and use tax accounting for three million dollars, and other taxes making up the remainder of the increase. Intergovernmental revenue increases of \$3.4 million include a \$900,000 increase in

state shared revenues and state entitlements, with the remainder reflecting new grants received during the budget cycle. Within other revenues, there occurred a \$3.9 million budget decrease in investment interest revenues, reflecting record low interest rates during the biennium (although interest rates did increase in 2004 from 2003 levels). During this same period, the budget for charges for services increased by \$3.9 million, with the bulk of the increases related to reimbursements for services supplied to other entities (by the sheriff department, information services, the court system, and the County work crew), and for increases in recording fees (related to financing/refinancing in the housing market).

General government expenditures showed the largest budget increase within the General Fund. General government programs account for 46% of the total dollar budget increase, public safety programs account for 28%, judiciary programs account for 19%, and all other programs, combined, account for 7%. A listing of significant changes in the general government expenditure budget follows:

- The budget for employee costs increased by \$1.4 million. The increase covered expenditures for newly adopted full time positions, contract settlements, management merit, and overtime associated with special projects.
- The Office of Budget and Information Services increased their budget for supplies and services by approximately just under one million dollars for upgrading security to conform with new Health Insurance Portability and Accountability Act of 1996 (HIPAA) requirements, increasing internet capacity, extending the IT network to outlying County locations, and covering increases in annual software maintenance costs.
- A leasehold excise tax audit by the Washington State Department of Revenue resulted in a need to increase the budget by \$150,000 to cover tax assessments.
- The prosecuting attorney budget was increased by approximately \$813,000 in response to a significant increase in the number of felony trials during this period.
- Contracted professional services and temporary employment expenditures were increased by approximately \$600,000 during the biennium.

The Public safety budget increases are related to employee costs. Employee related budget increases included \$1,637,000 for contract settlements, \$630,000 for sheriff services contracted out (offset by an increase in charges for service revenues, referred to above).

Budget expenditure increases in the judicial program included approximately \$200,000 for employee costs (mostly related to establishing a collection department for the courts), \$1.2 million for indigent defense, and approximately \$200,000 for additional supplies and services.

Interfund transfers increased \$9.8 million, and were for one time capital outlays (for information technology systems and a point of sale cashier system) and subsidies to other funds (generally to reduce debt or deficit within the receiving funds). A listing of significant items follows:

- \$384,000 was transferred to the GIS Fund to cover building rent and to help reduce the fund deficit.
- \$740,000 was transferred to the Workers Compensation Insurance Fund in order to cover a large expense related to a job related fatality (including survivor benefit annuity), and an unusually high number of claims activity in 2004.

- Nearly four million dollars, combined, was transferred to the Clark County Fair Fund and the Facilities Management Fund, in order to eliminate debt for those funds.
- \$1.6 million was transferred to capital funds in order to supplement bond proceeds that were secured for several capital construction projects.

### General Fund Budget to Actual

The County adopts a biennial budget, with 2004 being the ending of the current budget cycle. Total revenues exceeded the final budget by less than one percent, while total expenditures were 96% of the final budget. Other financing sources (which account for less than 1% of the total budget funding) fell 19% short, while interfund transfers ran 2% over the final budget. The following table shows the variance between the final 2003/2004 General Fund budget and the actual revenues and expenditures for the biennium.

*Clark County Washington*  
General Fund Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Budget (GAAP Basis) and Actual  
For the Year Ended December 31, 2004

	Final 2003/2004 Budget	Actual Biennium-To-Date	Variance Final Budget Positive/(Negative)
<b><u>Revenues:</u></b>			
Taxes	\$ 132,133,030	\$ 133,359,618	\$ 1,226,588
Intergovernmental	21,958,174	23,044,259	1,086,085
Other Revenues	43,208,819	42,422,987	(785,832)
Total revenues	197,300,023	198,826,864	1,526,841
<b><u>Expenditures</u></b>			
General government	60,354,446	58,569,850	1,784,596
Public safety	101,328,823	96,569,042	4,759,781
Judicial	22,740,079	22,480,477	259,602
All other expenditures	12,566,656	11,849,059	717,597
Total expenditures	196,990,004	189,468,428	7,521,576
Excess (deficiency) of revenues over expenditures	310,019	9,358,436	9,048,417
Other financing sources	1,499,414	1,221,338	(278,076)
Interfund transfers	(12,306,207)	(12,570,769)	(264,562)
Total other financing sources(uses)	(10,806,793)	(11,349,431)	(542,638)
Net change in fund balance	(10,496,774)	(1,990,995)	8,505,779
Fund Balance as of January 1	14,421,405	8,488,860	(5,932,545)
Prior Period Adjustment	0	5,518,387	5,518,387
Fund Balance as of January 1-restated	14,421,405	14,007,247	(414,158)
Fund balance as of December 31	\$ 3,924,631	\$ 12,016,252	\$ 8,091,621

Taxes and intergovernmental revenues ran about a million dollars, each, over budget, while other revenues, combined, came in \$785,832 under budget. Within general government programs, services and charges (which consist mainly of utilities, rent, maintenance, travel, training, and professional services) ran \$1.3 million under budget, while payroll and employee benefit expenditures ran \$.04 million under budget. Within public safety programs payroll and employee benefit expenditures ran \$2.4 million under budget, services and charges ran \$.08 million under budget, and intergovernmental services ran \$1.6 million under budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

Clark County's total investment in capital assets, including construction in progress, for its governmental and business type activities as of December 31, 2004, is \$984 million (net of

accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, road and bridge subsystems, stormwater facilities, fish passages, trails, and construction in progress on buildings and systems. Major capital asset events during the current fiscal year included the following:

- A variety of projects for new street construction and expansion of existing streets were ongoing during the year. Resources spent in 2004 on street projects completed in 2004 amounted to nearly four million dollars, while another twenty million dollars was spent in 2004 on projects that will continue into 2005.
- \$1.7 million was spent on a new payroll, human resources and budget preparation system.
- In 2003, construction began on a new community health center, which will cost approximately \$38 million upon completion. The County spent \$14.3 million on this project in 2004, for a total of \$14.7 million spent to date.
- In 2004, \$13.2 million was spent on a new exposition center at the county fairgrounds (a total of \$14 million has been spent to date). This project will be completed in 2005, with an estimated total project cost of \$18.5 million.
- Vehicles, street equipment, and trailers were added to the fleet as either new equipment or replacements during the year, at a cost of \$1.6 million. Fleet equipment with a net depreciated value of \$127,082 was disposed of in 2004.
- Park acquisitions and improvements amounting to \$4.5 million were added in 2004.
- The Sanitary Sewer Fund began planning and engineering for the phase four expansion of the Salmon Creek Treatment Plant, including work on the interceptor line in 2003. Project costs in 2004 were two million dollars. The phase four expansion will continue for several years, and is expected to cost \$71 million at completion. All debt and cash outlay for the cost of the treatment plant is reimbursed by the City of Battle Ground and Hazel Dell Sewer District through an interlocal agreement.
- In 2004, urban residential roads were contributed by developers at a value of \$7.6 million. Stormwater facilities were contributed by developers in 2004 at a value of \$17 million.

Additional information on Clark County's capital assets can be found in note IV.4. of this report.

### **Long-Term Debt**

At December 31, 2004, Clark County had total bonded debt outstanding of \$180 million (an increase from \$134 million at December 31, 2003). Governmental activities had bonds payable of \$152 million, up \$54 million from 2003 (due to new bonds issued in 2004 of \$57 million, as was discussed in earlier sections of this discussion and analysis). At the end of 2004, business-type activities had \$28 million in bonds payable, a decrease of six million dollars from 2003 (primarily due to a \$7.3 million defeasement of revenue bonds in the Sanitary Sewer Fund). Revenue bonds (bonds secured solely by specified revenue sources) represent \$28 million (net after discounts and premiums) of the County's total bonded debt, while \$152 million (net after discounts and premiums) is comprised of general obligation bonds. \$263,954 is special assessment debt for which the County is liable in the event of default by the property owners subject to the assessment. The full faith and credit of Clark County back the remainder.

Of the \$59 million in new bonded debt in 2004, two million dollars is for issuance premium, which will be amortized over the life of the new bonds. There were no refundings in 2004. Bond retirements in 2004 were \$13.8 million in total. The County's remaining capacity for non-



voted debt at December 31, 2004 was approximately \$296 million (a decrease from \$312 million at December 31, 2003). General obligation debt issued in 2004 was insured and had an “Aaa” rating from Moody's Investment Service. Clark County maintains an underlying rating for non-voted debt of “Aa3” from Moody's Investment Service. Additional information on the County's long-term debt can be found in note IV.8.

### **Modified Approach for Reporting Infrastructure Assets**

In 2003, the County elected to implement the “Modified Approach” for reporting road subsystems, stormwater subsystems, and bridge infrastructure, as defined by GASB Statement #34. Under GASB #34, eligible infrastructure capital assets are not required to be depreciated under the following conditions:

- The County manages the eligible infrastructure subsystems with:
  - an up-to-date inventory
  - current condition assessments that summarize the results using a measurement scale, in a manner that can be replicated, are done at least every three years
  - estimate of the annual amount to maintain and preserve the eligible infrastructure assets at the condition level that has been established and disclosed by the County.
- The County documents that the eligible infrastructure assets are being preserved approximately at, or above, a condition level that has been established and disclosed by the County.

Following is a table which shows the value of infrastructure assets being reported using the modified approach, and how their current assessed condition compares with the condition level established by the County:

**Infrastructure Assets Using the modified Approach  
Condition Assessment as of December 31, 2004**

	<i>Historical Cost</i>	<i>Accum. Depreciation as of 12/31/02</i>	<i>Net Cost</i>	<i>Average Assessment Value *</i>		<i>Established Condition Level</i>
				<i>2003</i>	<i>2004</i>	
Road Subsystem	442,292,138	16,553,296	425,738,842	85	85**	70
Stormwater Subsystem	56,345,889	4,260,384	52,085,505	87	87**	70
Bridges Subsystem	6,348,602	-	6,348,602	73	74	50
Total	504,986,629	20,813,680	484,172,949			

\*Although the County has only recorded infrastructure constructed after 1980 on the capital asset listing, all county roads, bridges, and stormwater facilities are assessed, regardless of when they were constructed.

\*\*There was no change in the road subsystem or the stormwater subsystem average condition level, as there has not been a complete assessment done since 2003.

Each of the three infrastructure categories in the table above had an average assessed value well above the established condition level. This is the second year the County has reported under the modified approach. Road and stormwater subsystem condition assessments are done on a rotating basis, where a full assessment is completed over a three year cycle, at a minimum. All bridges are assessed every year.

Although condition assessments have not been documented for the entire road system in prior years, the County has used the pavement management system for several years, which employs industry standard road condition criteria to evaluate each road segment and determine maintenance needs. Maintenance and preservation activities have been budgeted at sufficient

levels to maintain the road condition to a level at or above the established standard. The County spent \$12.4 million for road system preservation and maintenance in 2004, or 94% of the annual budget of \$13.2 million.

Most of the County's bridges were built prior to 1980, and are not included in the listing of capital asset infrastructure, in accordance with the requirements of GASB Statement #34. However, all County owned bridges are monitored and assessed, and are included in the average assessment value for 2004. The County has employed detailed State mandated evaluation methodologies for several years in managing the bridge network, and the ratings are sent to the State and incorporated in a state-wide bridge inspection database. Maintenance activities are budgeted at sufficient levels to maintain the bridge condition to a level at or above the established standard. The County spent \$245,114 for bridge maintenance in 2004, or 69% of the annual budget of \$354,052. Repair for flood damage is one aspect which is considered in creating the annual budget. In 2004 there were no flooding events, so that portion of the budget was not spent.

The County's stormwater facilities are a recent addition to infrastructure assets, with approximately 95% of the total system being added since 1996. Stormwater facilities consist mainly of holding ponds, and are commonly earthen in construction with no moving parts or non-earthen structural layers. A few facilities include some rugged construction, generally consisting of cinderblock retention walls. The stormwater facilities are intended to collect water and allow it to seep into the ground over time. There is very little maintenance or preservation activity required for this subsystem, when compared to the investment in the subsystem. The County spent \$233,868 for stormwater maintenance in 2004, exceeding of the annual budget of \$225,000. Stormwater facilities maintenance is performed by road maintenance personnel, who are reimbursed for this work by the Clean Water Fund. Both funds had budget capacity available from other activities where the budget exceeded actual expense, allowing for the extra expense on stormwater maintenance.

## **ECONOMIC FACTORS**

The Board of County Commissioners approved a 25-year lease in 2002 with Quincunx of Washington, LLC., which allowed Quincunx to build and operate an amphitheater at the Clark County Fairgrounds. As terms of the agreement specify, Quincunx has transferred ownership of the \$16,000,000 amphitheatre to the County, and will make annual rent payments to the County totaling \$20 million over the next 25 years, while also reimbursing the County for the leasehold excise tax obligations to the State of Washington.

The County is partnering with the Federal Department of Veterans Affairs and other non-profit agencies in the construction of a building on federal property to house a variety of social service programs ( referred to as the Community Health Center). This Community Health is expected to cost approximately \$38 million to construct.

There have been a series of voter initiatives over the last several years, as well as both State of Washington and Federal legal changes that will have an impact on future finances of the County. A listing of legislative conditions and decisions that may significantly affect the future financial condition of the County follows:

- Initiative 747 which was approved by voters in Washington on November 6, 2001, limits the annual property tax increase to 1% or the Implicit Price Deflator (IPD), whichever is less. An increase above 1% is allowed only with voter approval. The 1% limit excludes increases due to the addition of new construction.

- Senate Bill 6211 took effect in 1997. This bill allows counties to recoup costs for regional services for misdemeanor offenders. This includes the costs associated with District Court, Corrections, and Jail Services. In 2004, the County recouped about \$5.3 million.
- In November 1999, the voters in Washington approved Initiative 695, which eliminated the annual motor vehicle excise tax and replaced it with a \$30 annual fee on motor vehicles. As a result, a portion of funding the County receives from the State for law and justice services was reduced by approximately \$3.1 million. The County has received partial funding of approximately one million dollars annually in since 2000. The County anticipates this funding to continue through 2006, however, it is expected that the partial funding will most likely discontinue in the future.
- The listing of several species of salmon and steelhead under the Endangered Species Act has monetary impact on the County. Ordinance revisions and changes in ongoing operations to protect fish and habitat have an associated expense. To date, restoration projects have been funded both by county contributions and outside revenues.
- Requirements of the National Pollutant Discharge Elimination System (NPDES) permit are expected to cost \$12 million for stormwater management over the next several years, to help stop the discharge of pollutants into our lakes, streams and aquifers. Funding for this stormwater system comes from user fees that began in 2000.

### **Requests for Information**

This financial report is designed to provide a general overview of Clark County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Auditor's Office, Clark County, 1300 Franklin Street, P.O. Box 5000, Vancouver, WA, 98666-5000.